

**Achievement of Market-Friendly Initiatives and Results Program  
(AMIR Program)**

**Funded by**  
U.S. Agency for International Development

**Work Plan for Central Bank of Jordan and Banking Sector**

**Final Report**

Deliverable for FMD, Work Plan Activity No. 634.01

**Consultancy Agreement No. 278-C-00-02-00210-00**

**July 12, 2003**

This report was prepared by Sarah W. Hargrove, in collaboration with Chemonics International Inc., the prime contractor to the U.S. Agency for International Development for the AMIR Program in Jordan.

## **Data Page**

**Name of Component:** Financial Markets Development

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**Practice Area:** Financial Sector

**Service Offering:** Central Bank Regulation and Supervision

### **List of Key Words Contained in Report:**

Anti-Money Laundering  
Bank Examinations/Inspections  
Bank Supervision  
Basel II  
Credit Analysis  
Cross-border Banking  
Early Warning System  
FDIC Examination Report  
Financial Analysis  
On-site Bank Supervision  
Resolution of Problem Banks  
Strategic Plan

## **Abstract**

This Work Plan outlines technical assistance required to help the Central Bank of Jordan and Jordan's banking sector adhere to internationally accepted banking standards as presented in the Bank for International Settlements comprehensive set of Core Principles and subsequent Compendium recommendations, guidelines and standards. The report identifies the 25 principles that need to be in place for an effective bank supervisory system and indicates areas that are targeted by this report.

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## Executive Summary

Developed in close collaboration with the Central Bank of Jordan (CBJ), the Work Plan identifies technical assistance suggested for the period of August 1, 2003 through September 30, 2004. This assistance is designed to help the CBJ adhere to the 25 basic principles set out by the Bank for International Settlements (BIS). These principles can be used as guidelines for effective banking supervision and thus the majority of the BIS principles relate directly to the Banking Supervision Department (BSD) at the CBJ and its role in developing, monitoring and maintaining a safe, efficient and reliable banking system in Jordan.

The areas for technical assistance include support in the development of the following: an early warning system; on-site examinations; administration and enforcement policies; bank resolution procedures; anti-money laundering legislation; a data warehouse; and comprehensive institutional strengthening of the banking sector to include corporate governance and risk management. Although these areas are all identified as part of this plan, it is suggested that they be incorporated into a broader strategic plan for the CBJ's BSD that would objectively and comprehensively evaluate the current and future environments of Jordan's banking sector and assist the CBJ in prioritizing and sequencing improvements that support its mandate to maintain a secure banking system in Jordan.

The three most important factors of the BSD's effectiveness include an enabling environment, the institutional capacity and corporate governance of Jordan's banks, and the BSD's resources and supervisory practices. Adherence to the BIS principles and execution of the outlined technical assistance will undoubtedly enhance all three factors, improve the competitiveness of Jordan's banks and move Jordan's banking sector closer to the CBJ Governor's goal of making the Kingdom's banks part of the global economy.

## **Work Plan for Central Bank of Jordan and Banking Sector**

**“Primitive banking sectors and unsophisticated debt markets are among the first flaws to tackle in the Middle East.”**

*World Economic Forum Extraordinary Annual Meeting, Jordan, June 22, 2003*

**“It is not easy to create and maintain a strong financial sector mainly because information deficiencies among depositors, financial institutions and borrowers may create incentives to take undue risk. Only effective financial supervision can successfully counteract this behavior by promoting adequate capital standards, effective risk management and transparency.**

**This requires skilled supervisors who can understand the risks in financial activities; identify the best ways to anticipate, manage and control these risks; and establish an adequate framework of prudential regulation. These strong leaders should have independent status and be backed up by institutional and legal support to help them enforce regulations and apply corrective measures.”**

*Financial Stability Institute, Bank for International Settlements (BIS)*

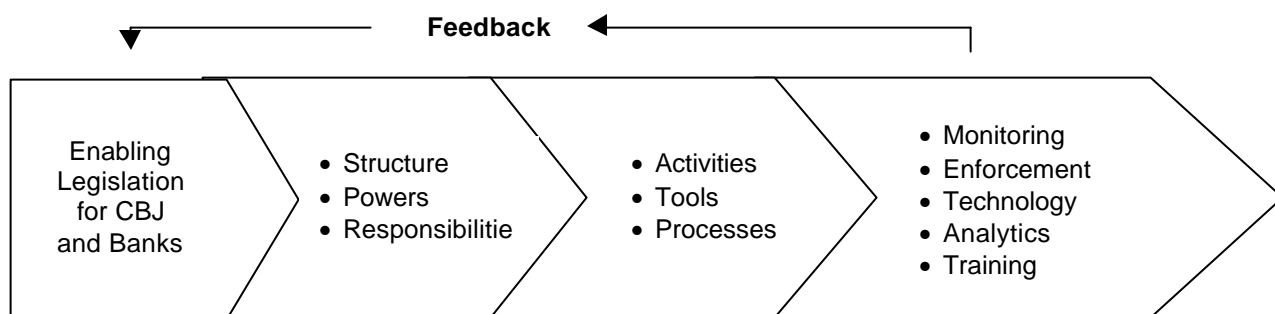
Over the past two decades globalization, deregulation, liberalization and the introduction of new complex financial transactions have led to more complicated and potentially risky banking systems worldwide. Banking supervisors have had to respond to these changes with new methods and processes for monitoring and assessing banks on an ongoing basis.

In an effort to strengthen bank supervision globally in 1997, BIS introduced a comprehensive set of Core Principles and subsequent updated Compendium of recommendations, guidelines and standards as a basic reference for effective banking supervision. There are twenty-five basic principles that need to be in place for a supervisory system to be effective by international standards. These principles relate to:

- Preconditions for effective banking supervision - Principle 1
- Licensing and structure - Principles 2 to 5
- Prudential regulations and requirements - Principles 6 to 15
- Methods of ongoing banking supervision - Principles 16 to 20
- Information requirements - Principle 21
- Formal powers of supervisors - Principle 22, and
- Cross-border banking - Principles 23 to 25.

CBJ has recently responded to an IMF questionnaire that addresses compliance with these principles that will presumably be discussed during the FSAP mission in August. As part of that discussion, CBJ will determine its compliance with the principles and will identify gaps that should be addressed by this work plan or future work plans. The Core Principles are outlined in Annex 1, indicating areas that are targeted in part by the current work plan.

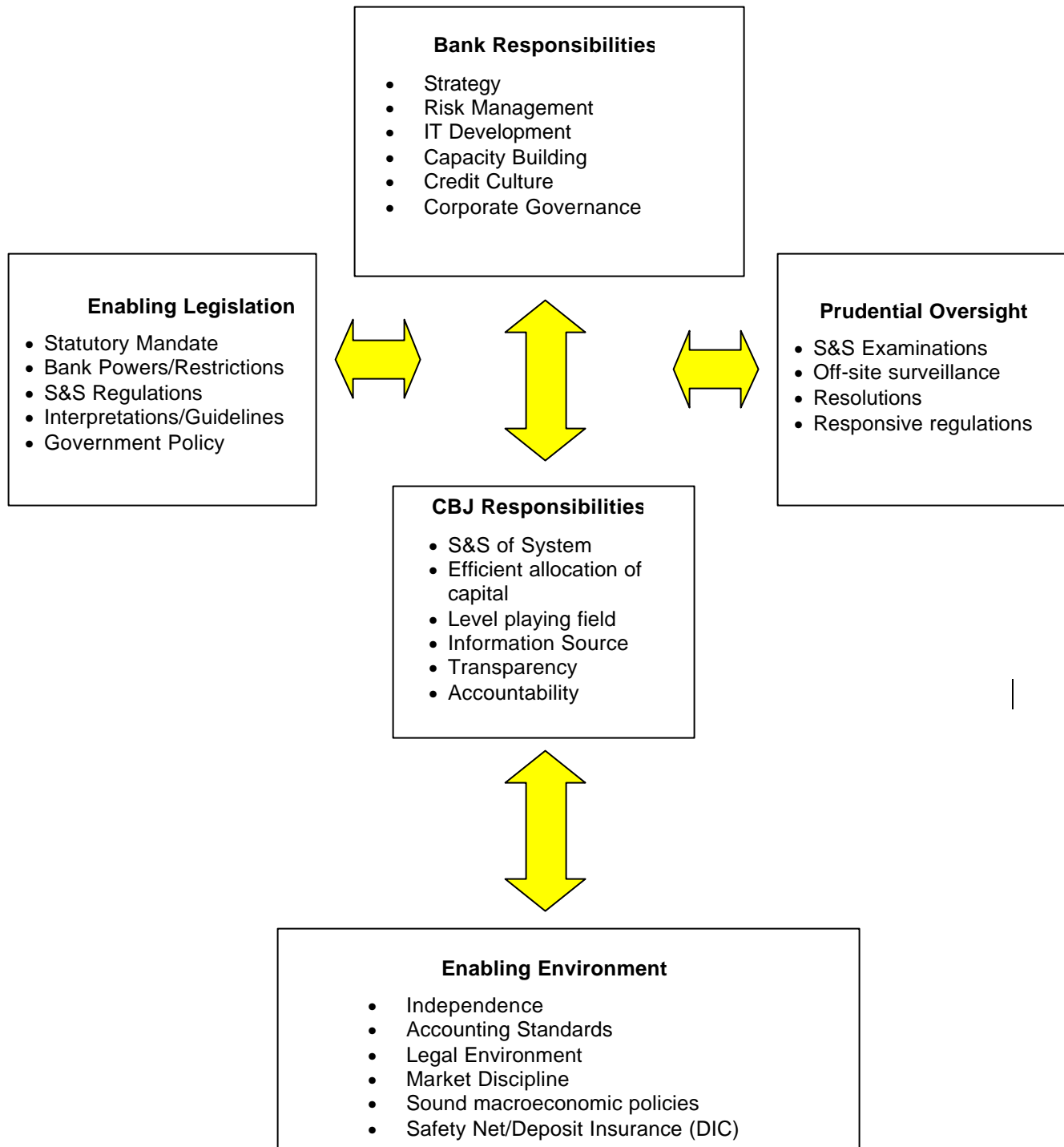
The following analytical framework provides the basis for this work plan, beginning with the enabling statute for the CBJ, acting through the Bank Supervision Department (BSD), and the banking laws and regulations for banks in Jordan:



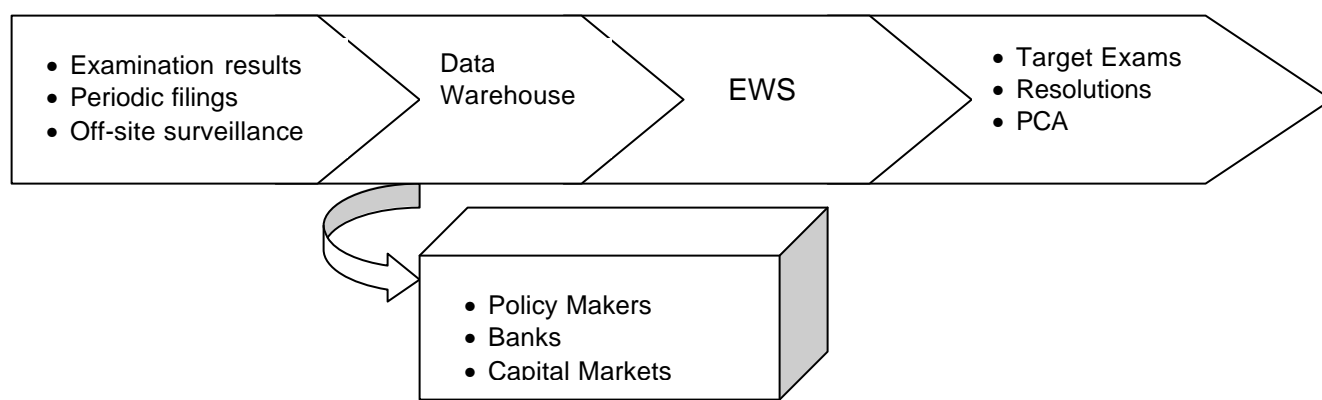
The feedback function allows for updating of laws and regulations to reflect changes in the banking industry.

The effectiveness of BSD’s supervision is dependent on the enabling environment, the institutional capacity and corporate governance of the Jordanian banks, as well as BSD’s resources and supervisory policies and procedures. The relationship among all the parties responsible for a safe and sound banking system in Jordan is depicted below:





Pursuant to its mandate, BSD's responsibilities should be limited to prudential regulatory and oversight activities; bank management has the responsibility to manage the bank in a safe and sound manner, in compliance with regulations, and should be held accountable.<sup>1</sup> BSD's on-site examination and off-site supervision activities provide information to monitor the soundness of the banks and the effectiveness of any regulatory constraints. This information can be stored in a database or Data Warehouse, and in turn, feeds the EWS<sup>2</sup> and other informational needs of the Research Department and other CBJ policy makers in terms of monetary and other macroeconomic policies. The EWS model and other supervisory reports on the condition of Jordanian banks provide the information needed to target exams or take other corrective actions as warranted to remedy if possible any noted deteriorating conditions. This flow of information is depicted below:



The governor of CBJ, Umayya Touqan, has indicated an interest in “making the Kingdom’s banks part of the global economy...and is implementing plans to open up the local market.”<sup>3</sup> This will lead to increased competition for Jordanian banks and consolidation. In an effort to prepare the BSD to meet these increased challenges and to conform to best practices in bank supervision, the focus of the work plan is on their examination and supervision activities, the IT/Data Warehouse, and the institutional capacity of the banks in Jordan. Although these areas are identified herein as part of the work plan, it is recommended that they be incorporated into a broader strategic plan for the BSD so that the initiatives can be properly understood and agreed to by all the stakeholders, prioritized and effectively sequenced.

### 1) Strategic Plan

The new Executive Manager of BSD has significant financial experience in the private sector and shares the governor’s views. His vision for the BSD and the banking industry at large are consistent with the evolving global consensus on effective bank supervision and the responsibilities of banks for good corporate governance and risk management. The strategic planning process provides a vehicle for the BSD to objectively and comprehensively evaluate where they are today and

<sup>1</sup> Excluding situations when a bank is under CBJ administration.

<sup>2</sup> EWS refers to all supervisory activities that allow BSD to monitor banks on a timely basis for early intervention given any deterioration in bank(s).

<sup>3</sup> *The Jordan Times Special Supplement*, June 22, 2003, p. 4.

where they need to be in five years, identifying what actions need to be taken to support their mandate for a safe and sound banking system in Jordan. There are several new initiatives that are currently underway, such as the new Credit Information Repository<sup>4</sup> that can be more definitively evaluated within the context of such a strategic review.

- Facilitate development of a Five-Year Strategic Plan for BSD, including Mission Statement and Goals; Review of Current Environment; Challenges of BIS 2 for banks and BSD and other Future Trends; Identification of Strengths and Weaknesses; Opportunities and Challenges; and Gaps.
- Establish a set of Objectives that drive the annual planning process and performance measurement and evaluation.
- Assist with working groups to gather input from all stakeholders to finalize a plan that all parties “buy into.”
- Facilitate development of action steps and timetables.

***Technical assistance in drafting any needed amendments to banking laws, rules or regulations.***

- Review existing statutory powers of CBJ
- Review regulations for revisions consistent with weaknesses and or redundancies identified in Plan
- Identify gaps vis-à-vis Core Principles
- Prioritize areas that need to be addressed
- Draft appropriate legislation, regulations or guidelines

## **2) Early Warning System: A Good Supervisory Framework**

The mandate of BSD to provide a safe and sound banking system in Jordan requires a proactive approach to identifying and rehabilitating, if possible, as soon possible problem banks, as well as promoting a good enabling environment for the banks to conduct business. All of BSD’s responsibilities and activities should be broadly thought of as an Early Warning System that integrates information derived during on-site examinations with all other information developed off-site, between examinations, and analyzed to detect any weaknesses in the banking system or deterioration in individual banks.

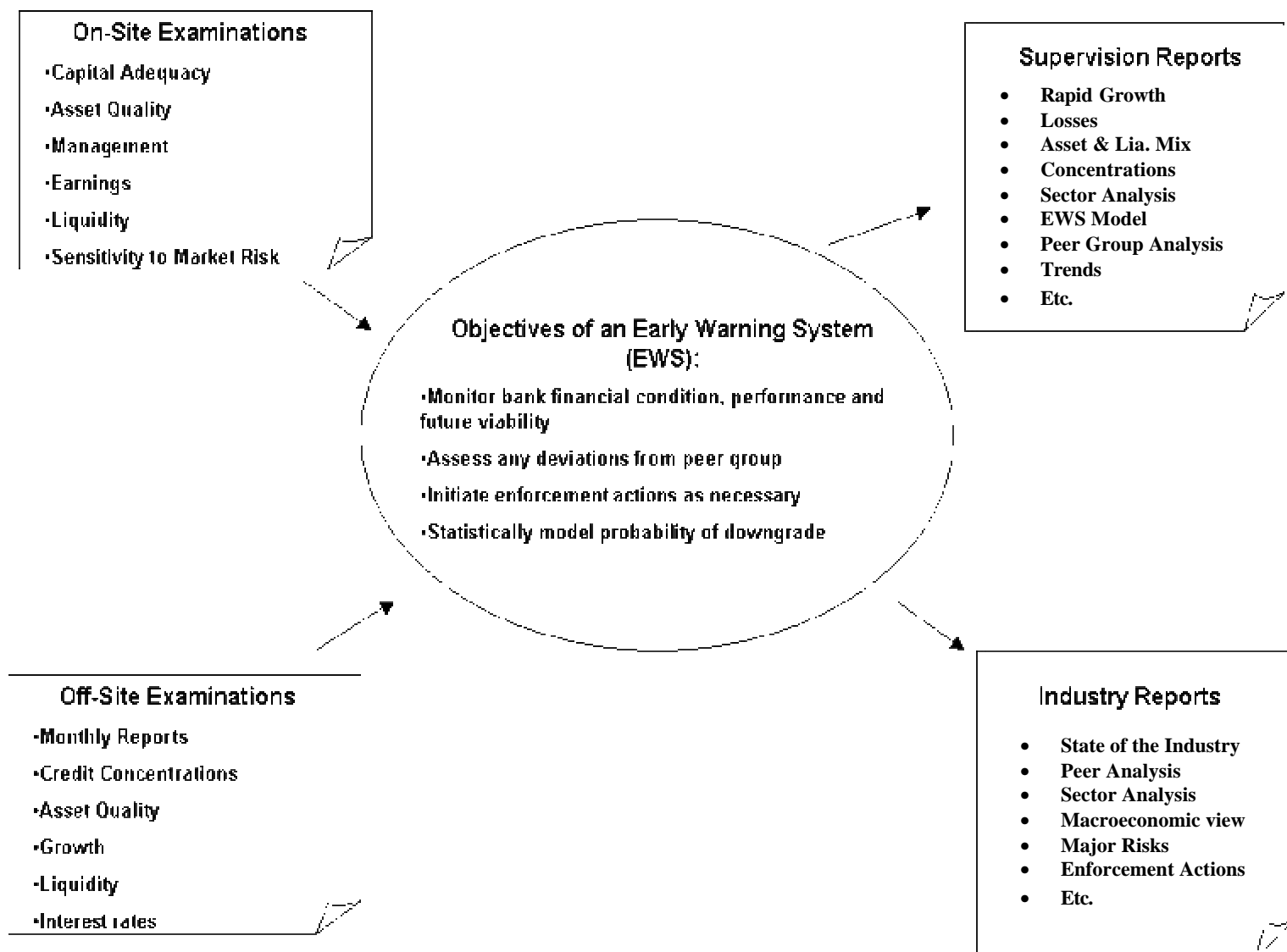
Off-site monitoring is an important component of effective banking supervision. Off-site surveillance involves collecting and analyzing information provided by the banks

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<sup>4</sup> The Credit Information Repository is envisioned as a database of all loans and deposits in Jordan’s banks, including performance history. Certain aspects of the Repository, such as secret numbers for account identity and a Chinese wall within BSD, can be reviewed for relevance.

in regular monthly or quarterly reporting. In addition, information gleaned from the banks' annual audits, the media, other bank examinations and other means can provide additional insight into the current and prospective conditions of banks. The information can be compiled and aggregated for a variety of purposes, including formulating monetary policy, monitoring credit expansion, in the aggregate and by sector, in the Kingdom, and providing feedback and peer analysis for the banks themselves. The "Credit Information Repository" is designed to collect information on all bank borrowers for performance monitoring purposes, as well as to monitor overall exposure concentrations in the banking system.

Whereas the on-site examinations can verify information that has been provided as part of off-site reporting, a good EWS incorporates all on- and off-site information into a meaningful analysis that detects potential problems for early intervention. This relationship is pictured below:



### ***Develop Menu of Periodic Reporting Requirements***

- Work with the Data Base Committee to review information currently provided by banks to CBJ to determine relevance and timeliness, and to rationalize the various reporting requirements
- Determine specific informational needs of BSD, Research, Office of Monetary Policy, DIC, participating banks, financial analysts and others
- Define input variables for consistency of treatment by banks
- Redesign, as necessary, report formats
- Formulate a Suspicious Activity Report (SAR) or other anti-money laundering reporting requirement pursuant to legislation when effective
- Design “supervision reports” and on-line screens that summarize pertinent information on a real time basis. Provide visual graphics using aids such as Microsoft Visio to enhance monitoring by senior management
- Design external summary reports for the banks and the public at large
- Develop and deliver, with CBJ, workshop for banks for training in new reports as necessary

### ***Develop Early Warning System Model<sup>5</sup>***

- Review historical data collected and cleaned by the BSD, identifying gaps and suggesting additions and/or refinements to improve quality of the information.
- Work with the Bank Supervision staff to develop an Early Warning System model which the BSD will use in the future to predict the likelihood of a down grade by constantly testing current financial and other operating data that banks will be required to provide to the BSD on a periodic basis relative to the actual examination results. That model’s design will be based on ratios and weights derived from a sample of currently available historical data.
- Work with the Bank Supervision staff to select those financial and operating ratios and weights (coefficients) that are the most effective predictors.
- Refine Early Warning model to prospectively adjust coefficients based on most recent actual examination results.
- Suggest if warranted, any additional data to be collected in order to improve the utilization of the Early Warning System and next steps to finalize the Early Warning System.

### ***Financial Analysis Training***

- Develop case study as exam for BSD staff to determine need for additional training in financial analysis

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<sup>5</sup> In process currently

- Develop and deliver training in Financial Analysis<sup>6</sup>
- Offer training to bankers as course sponsored by CBJ

### 3) On-Site Bank Supervision

On-site examinations are a major tool for CBJ to fulfill its mandate to ensure the safety and soundness of the banks in Jordan. BSD is exploring implementing the FDIC automated examination report format and associated examination documentation (ED) to provide consistency, comparability and improved examination results.

#### *Enhance Bank Examinations:*

- Review current examination forms for consistency and thoroughness. Identify gaps from best practice. Suggest improvements as warranted.
- Review current examination policies including scheduling, rotation, process and associated actions, suggesting improvements as warranted.
- Convert current Bank Examination Instruction Manual to FDIC's ED, recommending changes, if any, to improve its effectiveness in assisting examiners in producing meaningful and timely examinations/inspections in Jordan
- Automate examination process and manual of instructions (see **IT Plan**).

#### *Develop and Deliver Workshop on Bank Examinations/Inspections:*

- Identify gaps in current examination process relative to international best practice including analysis of the information
- Perform a training needs assessment of current bank examiners/inspectors
- Develop materials and deliver workshop(s) on application of new examination format and process.
- Develop additional remedial workshops as necessary to cover such areas as general financial analysis and corporate finance, credit analysis, and other basic tools necessary for producing quality examinations<sup>7</sup>
- Explore the feasibility of an "accreditation" process or commissioned examiner program with Human Resources Department

### 4) Administrative and Enforcement Actions

The primary tool for BSD to use in correcting a bank's violations of law or regulation, or of safe and sound practices or condition is reason and moral suasion. However, in the case of serious and continuing violations, particularly in the case of failing banks, BSD needs a set of formal and informal corrective actions at its disposal in order to fulfill its mandate. At present BSD has the power to force the merger of a troubled

<sup>6</sup> See Training Outline in Annex 2.

<sup>7</sup> Training as noted in #5 can be made available to CBJ staff and bankers in joint or separate sessions.

bank. DIC, although only in a formative stage, has the funding and the power to liquidate banks.

***Technical assistance in developing a range of administrative and enforcement actions, including policies related to specific CAMELS ratings in administering the actions***

- Informal actions including Letter of Agreement, Memorandum of Understanding, informal administrative actions
- Formal actions including formal administrative actions, cease and desist orders, suspension and removals, capital directives
- Imposition of Civil Money Penalties
- Prompt corrective action framework for resolving failing banks
- Recommend amendments to Article 88 of the Banking Law as necessary

### **5) Resolutions of Problem Banks**

Although the PCA framework developed above will address failing banks once their capital is depleted to a minimum level, the resolution of banks usually needs to be addressed before that minimum level is reached.

***Technical assistance in developing policies, guidelines and procedures for resolving troubled banking institutions.***

- Provide analytical framework for analyzing whether a troubled bank can be rehabilitated
- Provide analytical framework for analyzing alternatives (P&A, Liquidation, Open Bank Assistance, Merger, etc.)
- Review existing policies, guidelines and procedures for decision-making process and appropriate milestones for the hand-over of banks from CBJ to DIC
- Identify gaps vis-à-vis best practices
- Assist in the development of improved policies, guidelines and procedures
- Draft as necessary rules and regulations supporting PCA and bank resolutions

### **6) Anti-Money Laundering Requirements**

In addition to Article 93 of the Banking Law that addresses money laundering, CBJ is working with the IMF to enact anti-money laundering legislation. Once the law is in place, there will be reporting and other requirements for the banks.

- Establish unit responsible for monitoring money laundering activity in Jordanian banks, with related policies and procedures
- Formulate reports, such as Suspicious Activity Reports (SARs)

- Establish high risk products and services, customer types, and geographies
- Train banks and examiners on legislation, reporting requirements and steps they should take to improve due diligence standards in Know Your Customer (KYC), establish policies to monitor and detect unusual transactions and suspicious activities, and other internal controls to combat money laundering
- Development and maintenance of list of known or suspected persons engaged in money laundering or terrorist activities

## **7) Data Warehouse (see IT Plan)**

- Establish Bank Supervision Data Base and Data Analysis System
- Establish Credit Information Repository and Data Analysis System:
- Establish Money Anti-Laundering Data Base and Systems subject to passage of legislation
- Incorporate FDIC examination report and Examination Documentation (ED) into BSD's current system
- Archive paper-based products

## **8) Institutional Strengthening: Banking Industry**

### ***BIS II Readiness of BSD***

The motivation behind BIS 2, in part, is to put the onus on banks to have proper risk management systems in place to identify, measure, manage and monitor the various risks they face, and to set aside adequate to cover those risks. The primary focus for BSD is on Pillar 2, Supervisory Review, and Pillar 3, Market Discipline/Disclosure.

- Develop methodology and guidelines for examiners to assess the risk management capability of banks in Jordan, including Board and management oversight, and system for capital adequacy assessment depending on risk profile, monitoring and control and internal control review
- Develop guidelines for examiners to assess risks not considered under Pillar 1, including credit concentration risk, interest rate risk in the banking book, liquidity risk, business and strategic risk, and external factors such as business cycle effects
- Develop guidelines for assessing compliance with minimum or higher capital standards and disclosure requirements
- Develop policies for disclosure of supervisory information consistent with a transparent and accountable supervisory process
- Establish guidelines for banks:



1. Acceptance of external ratings
2. Procedures for weighting past due loans that are not sufficiently provisioned
3. Definitions of qualifying collateral
4. For IRB approach, determination of LGD, EAD and M factors for use in bank models
5. Operational risk capital assessment

### ***Corporate Governance in Jordanian Banks***

- Develop self-assessment audit/survey of corporate governance of banks in Jordan that includes Board Composition and Structure; Board Processes and Responsibilities; Risk Management; Lines of Responsibilities and Accountability; Financial Transparency and Information Disclosure; Financial Stakeholder Relations; Performance Evaluation.<sup>8</sup>
- Compile summary of practices, identifying gaps with best practices in corporate governance and risk management for distribution to participating banks
- Draft high-level observations and preliminary recommendations for improvements, including defining key training needs.<sup>9</sup>
- Develop and deliver training as necessary on corporate governance to banks and bank Directors
- Develop and deliver Risk Management and Basel II Compliance for BSD staff, banks and selected financial sector professionals
- Develop and deliver Credit Risk Management and Basel II for BSD staff, banks and selected financial sector professionals
- Develop and deliver Market Risk Workshop for BSD staff, banks and selected financial sector professionals
- Develop and deliver Basic and Advanced Credit Risk Analysis training as warranted for BSD staff and selected financial sector professionals<sup>10</sup>
- Develop Bank Directors Handbook that outlines roles and responsibilities of directors.
- Coordinate other corporate governance requirements, as necessary, as promulgated by SEC or others

<sup>8</sup> Can be incorporated in examination report.

<sup>9</sup> This becomes the basis of the examination framework outlined in #1.

<sup>10</sup> See Training Outline in Annex 2.

## LIST OF CORE PRINCIPLES FOR EFFECTIVE BANKING SUPERVISION<sup>11</sup>

Category	Core Principle	v
<b><i>Preconditions for Effective Banking Supervision</i></b>	<b>1.</b> An effective system of banking supervision will have clear responsibilities and objectives for each agency involved in the supervision of banking organisations. Each such agency should possess operational independence and adequate resources. A suitable legal framework for banking supervision is also necessary, including provisions relating to authorisation of banking organisations and their ongoing supervision; powers to address compliance with laws as well as safety and soundness concerns; and legal protection for supervisors. Arrangements for sharing information between supervisors and protecting the confidentiality of such information should be in place.	
<b><i>Licensing and Structure</i></b>	<b>2.</b> The permissible activities of institutions that are licensed and subject to supervision as banks must be clearly defined, and the use of the word "bank" in names should be controlled as far as possible.	
	<b>3.</b> The licensing authority must have the right to set criteria and reject applications for establishments that do not meet the standards set. The licensing process, at a minimum, should consist of an assessment of the banking organisation's ownership structure, directors and senior management, its operating plan and internal controls, and its projected financial condition, including its capital base; where the proposed owner or parent organisation is a foreign bank, the prior consent of its home country supervisor should be obtained.	
	<b>4.</b> Banking supervisors must have the authority to review and reject any proposals to transfer significant ownership or controlling interests in existing banks to other parties.	
	<b>5.</b> Banking supervisors must have the authority to establish criteria for reviewing major acquisitions or investments by a bank and ensuring that corporate affiliations or structures do not expose the bank to undue risks or hinder effective supervision.	
<b><i>Prudential Regulations and Requirements</i></b>	<b>6.</b> Banking supervisors must set prudent and appropriate minimum capital adequacy requirements for all banks. Such requirements should reflect the risks that the banks undertake, and must define the components of capital, bearing in mind their ability to absorb losses.	
	<b>7.</b> An essential part of any supervisory system is the evaluation of a bank's policies, practices and procedures related to the granting of loans and making of investments and the ongoing management of the loan and investment portfolios.	v
	<b>8.</b> Banking supervisors must be satisfied that banks establish and adhere to adequate policies, practices and procedures for evaluating the quality of assets and the adequacy of loan loss provisions and loan loss reserves.	v

<sup>11</sup> Source: BIS.

	9. Banking supervisors must be satisfied that banks have management information systems that enable management to identify concentrations within the portfolio and supervisors must set prudential limits to restrict bank exposures to single borrowers or groups of related borrowers.	v
	10. In order to prevent abuses arising from connected lending, banking supervisors must have in place requirements that banks lend to related companies and individuals on an arm's-length basis, that such extensions of credit are effectively monitored, and that other appropriate steps are taken to control or mitigate the risks.	v
	11. Banking supervisors must be satisfied that banks have adequate policies and procedures for identifying, monitoring and controlling country risk and transfer risk in their international lending and investment activities, and for maintaining appropriate reserves against such risks.	v
	12. Banking supervisors must be satisfied that banks have in place systems that accurately measure, monitor and adequately control market risks; supervisors should have powers to impose specific limits and/or a specific capital charge on market risk exposures, if warranted.	v
	13. Banking supervisors must be satisfied that banks have in place a comprehensive risk management process (including appropriate board and senior management monitor and control all other material oversight) to identify, measure, risks and, where appropriate, to hold capital against these risks.	v
	14. Banking supervisors must determine that banks have in place internal controls that are adequate for the nature and scale of their business. These should include clear arrangements for delegating authority and responsibility; separation of the functions that involve committing the bank, paying away its funds, and accounting for its assets and liabilities; reconciliation of these processes; safeguarding its assets; and appropriate independent internal or external audit and compliance functions to test adherence to these controls as well as applicable laws and regulations.	v
	15. Banking supervisors must determine that banks have adequate policies, practices and procedures in place, including strict "know-your-customer" rules, that promote high ethical and professional standards in the financial sector and prevent the bank being used, intentionally or unintentionally, by criminal elements.	v
<b>Methods of Ongoing Banking Supervision</b>	16. An effective banking supervisory system should consist of some form of both on-site and off-site supervision.	v
	17. Banking supervisors must have regular contact with bank management and thorough understanding of the institution's operations.	v
	18. Banking supervisors must have a means of collecting, reviewing and analysing prudential reports and statistical returns from banks on a solo and consolidated basis.	v
	19. Banking supervisors must have a means of independent validation of supervisory information either through on-site examinations or use of external auditors.	v
AMIR Program		19

	20. An essential element of banking supervision is the ability of the supervisors to supervise the banking group on a consolidated basis.	V
<b>Information Requirements</b>	21. Banking supervisors must be satisfied that each bank maintains adequate records drawn up in accordance with consistent accounting policies and practices that enable the supervisor to obtain a true and fair view of the financial condition of the bank and the profitability of its business, and that the bank publishes on a regular basis financial statements that fairly reflect its condition.	
<b>Formal Powers of Supervisors</b>	22. Banking supervisors must have at their disposal adequate supervisory measures to bring about timely corrective action when banks fail to meet prudential requirements (such as minimum capital adequacy ratios), when there are regulatory violations, or where depositors are threatened in any other way. In extreme circumstances, this should include the ability to revoke the banking licence or recommend its revocation.	V
<b>Cross-border Banking</b>	23. Banking supervisors must practise global consolidated supervision over their internationally-active banking organisations, adequately monitoring and applying appropriate prudential norms to all aspects of the business conducted by these banking organisations worldwide, primarily at their foreign branches, joint ventures and subsidiaries.	
	24. A key component of consolidated supervision is establishing contact and information exchange with the various other supervisors involved, primarily host country supervisory authorities.	
	25. Banking supervisors must require the local operations of foreign banks to be conducted to the same high standards as are required of domestic institutions and must have powers to share information needed by the home country supervisors of those banks for the purpose of carrying out consolidated supervision.	

## Advanced Credit Analysis for Banks and Examiners

### Target Group(s):

Experienced bank staff and managers who take credit risks or who monitor, control, or supervise them; CBJ examiners

### Objectives

Course participants will be able to:

- Demonstrate an understanding of the fundamentals of credit risk management and the credit process
- Satisfactorily evaluate the creditworthiness of prospective borrowers as potential credit clients
- Satisfactorily demonstrate ability to structure a credit to best reflect client needs while mitigating and controlling risks and optimizing pricing
- Satisfactorily monitor key credit risks throughout credit life
- Demonstrate a basic understanding of recovery management

### Course content:

#### A. Participant Welcome and Program Orientation

#### B. The Credit Process

#### C. Review of Pre-course Assignment

- The pre-course case study assignment will be designed to provide the participant an opportunity to assess the worthiness of a company's credit request. Assessing the company's creditworthiness will require the participants to calculate and analyze financial information including financial ratios and a company's the cash flow.

#### D. Financial Statement Analysis – Review

- Spreading the Financial Information Provided by Company
- Analyzing the Financial Statements

#### E. Financial Ratio Analysis – Review

- Ratio Mechanics
- Ratio Analysis

#### F. Terms and Concepts Used in Lending

- Defining Creditworthiness
- Creditworthiness evaluation (The 5 "C"s of Credit, etc.)
- Risk Management
- Asset Conversion Cycle ("ACC")
- Days Analysis
- Business Risks and Mitigants

G. The Evaluation Process – Review

- Conducting the Interview
- Understanding the Lender's and Borrower's Objectives
- Using the ACC as a Tool in the Interview Process
- Necessary Information
  - Business Plan
  - Financial Statements

H. The Lending Decision

I. Lending Rationales

- Asset Conversion
- Cash Flow
- Secured Lending

J. Loan Structuring

- Structuring an Asset Conversion Loan
- Structuring a Cash Flow Loan
- The Use/Importance of Collateral

K. Problem Loans

- Defining Characteristics
- Major Causes of Problem Loans
- Detecting Problem Loans
- Restructuring and Resolving Problem Loans

L. The Role of Credit Policies, Procedures and Administration

- Credit Policies and Procedures
- Risk Rating
- Lending Authority
- Reporting Requirements and Frequency
- Monitoring

M. Strengthening Credit Administration

N. Summarizing Case Study

- Case study will be designed to give the participants' an opportunity to apply the tools and concepts presented during the training program.

**Length:**

5 days

**Training Methodology:**

Lecture, discussion, exercises, case studies

**Materials/Pre-course assignments:**

None.

**Pre-requisites:**

Basic financial analysis and Basic credit analysis

## Financial Analysis for Bankers and Examiners

### Target Group(s):

New credit recruits, entry-level credit and financial analysts, and any analytical staff who need basic skills building or refresher course in basic financial analysis. Will be a prerequisite for more advanced analytical courses.

### Objectives

Course participants will be able to:

- Define the purpose and the key components of main financial reports
- Perform basic ratio analysis and understand application to financial analysis
- Perform other basic financial analytical tools, such as present value analysis, and understand application
- Understand banking applications of financial analysis
- Perform basic financial analysis on simple case studies and successfully determine main risks and main trends.

### Course content:

#### A. Participant Welcome and Program Orientation

#### B. Basic Accounting Review

- Accounting concepts
- Defining Assets
- Defining Liabilities
- Defining Equity
- The Accounting Equation:  $\text{Assets} = \text{Liabilities} + \text{Equity}$

#### C. The Financial Statement

- The major financial statements
- Balance Sheet – Discussion of key accounts
- Income Statement – Discussion of key accounts
- Statement Logic
- Accrual vs. Cash Accounting

#### D. Assessing the Quality of Financial Information

- Accountants' Opinions
- Financial Footnotes
- Accounting Standards
- Accounting Risk

#### E. Introduction of Business Terms and Concepts

- Financial statements as an expression of the Business
- Business Risks and Mitigants
- Business Characteristics and Impact on Financial Statements



**F. Financial Statement Analysis**

- Preliminary Considerations
- Obtaining and Processing the Financial Statements
- Spreading the Financial Information Provided by the Company
- Analyzing the Financial Statements
  - Horizontal Analysis
  - Vertical Analysis

**G. Financial Ratio Analysis**

- Financial Ratio Worksheet (Form)
- Ratio Calculation Mechanics
- Ratio Analysis
- Evaluating borrower risk based on ratio analysis
- Financial Ratio Exercises

**H. Cash Flow Analysis Mechanics**

- Earning Before Interest and Taxes (“EBIT”)
  - Calculation
  - Applications
- Earning Before Interest, Taxes and Depreciation and Amortization (“EBITDA”)
  - Calculation
  - Applications
- The Cash Flow Statement: Introduction

**I. Other Financial Analysis Tools**

- Net Present Value
  - Calculation
  - Applications
- Future Value
  - Calculation
  - Applications

**J. Summarizing Case Study**

- Case study will be designed to give the participants’ an opportunity to apply the tools and concepts presented during the training program.

**Length:**

5 days

**Training Methodology:**

Lecture, discussion, exercises, case studies

**Materials/Pre-course assignments:**

None.

**Pre-requisites:**

Basic Accounting